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SUBJECT: BULGARIA GRAPPLES WITH GROWING CORRUPTION SCANDAL

11. (SBU) SUMMARY: Bulgaria's establishment has been rocked by a far-reaching corruption scandal that involves high-ranking magistrates and government officials and may potentially lead to changes in the Socialist-led government. The high-profile case already forced PM Sergei Stanishev to sideline his powerful Energy and Economy Minister, Roumen Ovcharov, and outright fire two deputy ministers. The Chief Prosecutor also took decisive action, ordering a prompt investigation in what has become by far the biggest corruption scandal in post-communist Bulgaria. The scandal has continued to widen, as more and more unsavory connections between business and politics have come into the open. At this stage, observers continue to believe that the government is not at risk, but the scandal appears likely to cost Ovcharov his job and may lead to a cabinet reshuffle. Longer term, stresses in the system of graft and political corruption are building, the U.S. and EU look for deep changes, and we would not be surprised by seismic shifts in the political landscape. END SUMMARY.

TALES OF BLACKMAIL AND CORRUPTION

12. (SBU) The scandal is centered on two powerful officials with strong positions in the ruling Socialist Party (BSP) and its junior coalition partner, the ethnic Turkish Movement for Rights and Freedoms (MRF): BSP deputy leader and Economy and Energy Minister Ovcharov and the head of the National Investigation Service (NIS) Angel Alexandrov, a close associate of MRF leader Ahmed Dogan. In the course of the row, the two have accused each other of crimes ranging from blackmail, corruption and embezzlement to outright extortion and death threats. Their interests have intersected in two cases of high political sensitivity - the ongoing investigation of a corruption case involving the Sofia district heating utility and the privatization of the state tobacco monopoly Bulgartabak. Alexandrov announced that Ovcharov had blackmailed and threatened him, seeking to provide political protection for a powerful businessman, Krassimir Georgiev, investigated by NIS for his involvement in the Sofia district heating utility scandal. A leading figure in Bulgaria's energy sector, Georgiev has been a close friend of Ovcharov since the two studied at the Moscow Energy Institute. Alexandrov also charged Ovcharov with planning the "stealth" privatization of Bulgartabak, the state tobacco monopoly which the minister supervises, saying Ovcharov wanted to sell the decapitalised company to cronies. The MRF, many of whose voters rely on tobacco for their livelihood, opposes the tobacco monopoly sell-off.

13. (SBU) Ovcharov has dismissed all of Alexandrov's accusations, and in turn has charged Alexandrov with trying to siphon funds from Bulgartabak using blackmail and undue influence. Ovcharov said he was a victim of a smear campaign, inspired by a Socialist party lobby comprising of former communist security service officers whose economic influence Ovcharov has curbed. Ovcharov implied that Alexandrov, who worked as investigator under communism, was used as a tool by these circles. Interestingly, Alexandrov's friendship with MRF's leader Dogan dates back to the 1980s when Alexandrov was Dogan's jailer and/or case officer.

SENSITIVE TIMING

14. (SBU) The scandal comes during the campaign for Bulgaria's first vote for members of the European Parliament on May 20, in which the front-running Socialists face a strong challenge from the newly-formed GERB party of popular Sofia Mayor Boiko Borissov. The vote is a key test for the political parties' popularity ahead of the more important local elections in the autumn. Furthermore, Bulgaria, which joined the EU January 1, is under close scrutiny from the European Commission, which is due to release in early June a crucial report on Sofia's progress in fighting crime and high-level corruption.

HEADS START ROLLING AS PM, CHIEF PROSECUTOR STEP IN

15. (SBU) PM Stanishev and Chief Prosecutor Boris Velchev have taken decisive action, thereby setting this scandal apart from its many predecessors. Velchev immediately launched an investigation into the scandal, while Stanishev did not hesitate to act against his powerful deputy. In an unprecedented move, Velchev and Minister of Interior Roumen Petkov called on the European Commission to send a representative to monitor the handling of the investigation. The Commission declined, implying that it risked being manipulated. Both Ovcharov and Alexandrov were questioned and placed on forced leave of absence until the investigation is completed. The PM fired two deputy ministers - one from BSP and one from the MRF -- for their involvement in the scandal. "It is of utmost importance for the prosecution and the executive branch in Bulgaria to give a clear signal that there will be no political protection for anyone," said Stanishev. The PM also implied that circles linked to the former communist state security could be linked to the case, saying he hoped the probe would shed light on informal circles "who had used old contacts for blackmail over the past 17 years." President Georgi Parvanov backed Stanishev's actions, but took a public jab

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at the PM by noting that they came a bit late. An emergency BSP leadership meeting May 9 backed the actions of the PM, who also announced he would personally supervise the mega-Ministry of Economy and Energy in Ovcharov's absence.

BRUSSELS, MOSCOW DRAGGED INTO THE ROW

16. (SBU) Stanishev, however, allowed Ovcharov to accompany him on a previously scheduled trip to Moscow May 6-8 before taking a leave of absence. Political circles joked that the reason the PM allowed Ovcharov to travel to Russia was to give him the chance to immigrate. Under Ovcharov's stewardship, Bulgaria concluded several major deals that reinforced Russia's role in the Bulgarian energy sector while reinforcing the perception that he and his cronies benefited personally from the deals. During the visit to Moscow, Ovcharov surprisingly announced plans for an expansion of Russian gas transit through Bulgaria. The announcement, made after a meeting with Russia Gazprom CEO Aleksey Miller, triggered comments in Bulgaria that Ovcharov was trying to obtain the help of his Moscow business friends to retain his job.

17. (SBU) In the meantime, Sofia's move to invite EU officials to supervise the investigation got mixed reactions in Brussels. Velchev's invitation, apparently aimed to please Brussels ahead of the European Commission report due in June, appears to have backfired. EU officials' reservation towards the invitation showed they regarded the move more as a sign of weakness, while some EU officials outright said they could not act as arbiters on domestic judicial matters. The most likely explanation is the Commission officials feared they would be used as a fig leaf.

POLITICAL TENSION RISES

18. (SBU) Over the past few days the scandal began to reveal more and more unsavory connections between business and politics as figures such as the notorious arms dealer Nikolai Gigov have been questioned. To add to the tension, Sofia public transport workers threatened a strike May 15 to demand higher wages, prompting memories of the winter of 1997, when a transport strike led to

nationwide protests that toppled the previous Socialist-led government. In another twist that is seen as hardly coincidental, the ministers from the junior coalition partner in the center-left coalition -- the National Movement for Simeon II -- walked out from a government session May 10 due to a row with the Socialists over a planned wage increase.

19. (SBU) COMMENT: In this country where corruption scandals come and go with disturbing regularity, it is difficult to predict whether this one will follow the familiar life cycle, or whether the government will, at last, clean house. The PM and the Chief Prosecutor have demonstrated the political will to fight high-level corruption in their own ranks, but it remains to be seen how far they are ready to go. PM Stanishev and President Parvanov benefit personally from the departure of the powerful Energy and Economy minister, who has been their longstanding rival within the BSP. But his ouster may present Stanishev with new difficulties, as it could distort the fragile balance between the BSP's rival lobbies. Furthermore, the controversy is likely to drag down Socialists' support in the May 20 vote for members of the European Parliament and boost the chances of Sofia Mayor Borissov's GERB party, which could embolden the charismatic former Interior Ministry General. Bulgaria's track record for political unpredictability notwithstanding, at this stage the scandal does not appear to pose a serious threat to the stability of the ruling coalition, though the conspiracy theorists and rumor mongers are predicting so many scenarios that even they must be getting dizzy. END COMMENT

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